International Seabed Authority ISBA/24/FC/1

Finance Committee

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Twenty-fourth session
Kingston, 2–27 July 2018

Agenda

1. Adoption of the agenda.
2. Election of the Chair.
3. Election of the Vice-Chair.
4. Implementation of the budget for the financial period 2017.
5. Review of costs of conference services and implementation of other cost-saving measures.
6. Status of implementation of the International Public Sector Accounting Standards.
7. Audit report prepared by Ernst & Young on the accounts of the International Seabed Authority for 2017.
8. Status of the Endowment Fund for Marine Scientific Research in the Area and of the voluntary trust fund to support the participation of members of the Council of the International Seabed Authority from developing States in the meetings of the Council, and related matters.
9. Status of the voluntary trust fund for the purpose of defraying the cost of participation of members of the Legal and Technical Commission from developing countries and members of the Finance Committee from developing countries in the meetings of the Commission and of the Committee, and related matters.
10. Status of the Working Capital Fund.
11. Status of overhead charges for the administration and supervision of contracts for exploration and their reflection of costs actually and reasonably incurred.
12. Rules, regulations and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area pursuant to section 9, paragraph 7 (f), of the annex to the 1994 Agreement.
13. Proposed budget for the financial period 2019–2020.
14. Indicative scale of assessed contributions of members of the Authority to the administrative budget for the financial period 2019–2020.
15. Other matters.

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International Seabed Authority ISBA/24/FC/2

Finance Committee

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1 May 2018

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Twenty-fourth session
Kingston, 2–27 July 2018
Item 10 of the provisional agenda*
Status of the Working Capital Fund

Status of the Working Capital Fund

Report of the Secretary-General

1. In its decision ISBA/3/A/9, the Assembly of the International Seabed Authority decided that:

(a) The Working Capital Fund would be established in the amount of $392,000, being approximately one twelfth of the approved budget for 1998, with $196,000 to be paid in 1998 and $196,000 to be paid in 1999;

(b) Members of the Authority would make advances to the Working Capital Fund in accordance with the scale of assessments adopted by the Assembly of the Authority for contributions of members to the budget for the year 1998.

2. The Working Capital Fund is intended to meet the day-to-day budgetary expenses of the Authority in the event that member State contributions at the time of use are insufficient to cover its expenses. As soon as sufficient funds are available, the borrowed funds are to be reimbursed to the Fund. Payments made by members of the Authority are to be credited first to the Fund and then to the contributions due, in the order in which the members were assessed.

3. Over the years, the level of the Working Capital Fund has increased to $660,000, with the most recent increase of $100,000 approved by the Assembly in 2016, on the basis that the increase would be spread evenly over the next two bienniums, to be determined using the Authority's current scale of assessments applied to the total value of the Fund (see ISBA/22/A/13).

4. As at 31 March 2018, the balance of the Working Capital Fund was $590,539, with a further $69,456 to be collected between 2018 and 2020.

* ISBA/24/FC/L.1.

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International Seabed Authority ISBA/24/FC/3

Finance Committee

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Twenty-fourth session
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Item 11 of the provisional agenda*
Status of overhead charges for the administration and supervision of contracts for exploration and their reflection of costs actually and reasonably incurred

Status of overhead charges for the administration and supervision of contracts for exploration and their reflection of costs actually and reasonably incurred

Report of the Secretary-General

1. At a meeting held during the twenty-third session, and in line with section 10.6 of the annex to the decision of the Assembly concerning overhead charges for the administration and supervision of exploration contracts (ISBA/19/A/12), the Finance Committee requested the Secretary-General to further assess the costs of administration and to consult with the contractors on possible cost-saving measures (see ISBA/23/A/8-ISBA/23/C/10). The Committee also stated that it would, in all likelihood, recommend an adjustment of overhead charges in 2018. The present report responds to that request and provides the current cost assessment.

2. In 2013, on the recommendation of the Finance Committee, the Assembly decided to require each contractor with the Authority to pay a fixed annual fee to cover overhead costs for the administration of exploration contracts in the Area. The fee was set at $47,000 per year per contract (ISBA/19/A/12). In fixing the fee, the Committee applied the system developed by the United Nations Development Programme of applying standard costs to contract administration and supervision. The actual amount of the costs calculated by the Secretariat on that basis in 2013 was $52,182.

3. Standard costs were applied as from 1 January 2013, with payments to be made by contractors by 31 March annually. Those payments are credited to the administrative budget, thus offsetting the costs to members of the Authority.

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4. It was agreed that the standard costs would be reviewed periodically to ensure that they were commensurate with actual costs. Such an exercise was carried out at the end of 2016 by extrapolating the 2012 figures to 2016 figures. The same exercise was conducted at the end of 2017. The methodology used is outlined below:

(a) Costs as defined in 2013 using 2012 figures are matched to the 2012 trial balance;

(b) Costs are adjusted to 2017 figures (using the same ranges of accounts as in 2012);

(c) As the standard methodology for the administration and supervision of contracts has not changed, it is assumed that the adjusted figures represent the true cost of administration for 11 contracts in 2017.

5. Table 1 below contains a comparative analysis of 2012 expenditures and extrapolated figures for 2017. The 2012 cost structure has been maintained, except for the figures for translation services, which represent actual costs.

Table 1
Evolution of standard overhead costs for administering and supervising contracts, 2012–2017
(United States dollars)

Budget line	*2013 survey (11 contracts)*	*2012 value from trial balance*	*2017 value from trial balance*	*Variation, 2012–2017 (percentage)*	*Adjusted 2017 value*	*Extrapolated 2017 value (27 contracts)*
Salaries and post adjustment	204 000	2 477 484	2 923 979	18.02	240 765	585 277
Common staff costs	101 000	1 210 009	1 472 935	21.73	122 947	397 221
Workshops	102 000			31.35	137 258	346 051
Equipment rental	16 700			-90.07	1 545	3 792
Documentation	78 480			-28.22	60 235	155 902
Meeting services	33 400			101.99	73 207	151 037
Translation	28 400				24 366	59 808
Miscellaneous	10 020			17.79	8 684	26 425
Total	**574 000**					**1 725 513**
Number of contracts	11					27
Contract costs	52 182					63 908

6. The number of contracts managed rose from 11 in 2012 to 27 in 2017. The larger number of contracts entailed increased human effort in the supervision and management of contracts, requiring increased capacity within the Authority. The increase also caused total costs to grow from $574,000 in 2012 to $1,725,513 in 2017.

7. Table 2 shows the estimated actual cost of administering contracts in 2017, which amounted to $63,908 per contract, representing a 22.5 per cent increase from the amount calculated in 2012 or a 3.4 per cent increase per annum, as also reflected in the last column of table 1.

Table 2
Costs of administering and supervising exploration contracts in 2017
(United States dollars)

Budget line	*Estimated costs*
Salaries and post adjustment	21 677
Common staff costs	14 712
Workshops	12 817
Equipment rental	140
Documentation	5 774
Meeting services	5 594
Translation	2 215
Miscellaneous	979
Total	**63 908**

International Seabed Authority ISBA/24/FC/4

Finance Committee

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Item 12 of the provisional agenda*
Rules, regulations and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area pursuant to section 9, paragraph 7 (f), of the annex to the 1994 Agreement

Rules, regulations and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area

Report of the Secretary-General

I. Introduction

1. During the twenty-third session, the Finance Committee discussed the impact that the preparation of draft regulations on the exploitation of mineral resources in the Area might have on its work plan. The Committee identified several areas that required its input, including the formulation of rules, regulations and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area, and it requested that the Secretary-General prepare background information on that matter for preliminary consideration at the twenty-fourth session.

2. The present report has been prepared to assist the Finance Committee in its consideration of that question. The report identifies a number of key elements requiring interpretation and elaboration and contains suggestions as to how the Committee might conduct the development of rules, regulations and procedures in parallel with the development by the Legal and Technical Commission of the regulations on the exploitation of mineral resources in the Area.

II. Applicable legal provisions

3. Provisions concerning the equitable sharing of benefits from activities in the Area are found in articles 140 (2), 155 (1) (f), 160 (2) (f) (i) and (g), and 162 (2) (o) (i) of the United Nations Convention on the Law of the Sea. Provisions concerning the equitable sharing of payments and contributions derived from the exploitation of resources on the continental shelf beyond 200 nautical miles are contained in articles 82 (4), 160 (2) (f) (i) and 162 (2) (o) (i) of the Convention and in section 9,

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paragraph (7) (f), of the annex to the Agreement relating to the Implementation of Part XI of the United Nations Convention on the Law of the Sea of 10 December 1982 (1994 Agreement).

4. Article 140 of the Convention, which belongs to section 2 (Principles governing the Area) of part XI, reads as follows:

> *Benefit of mankind*
>
> 1. Activities in the Area shall, as specifically provided for in [part XI], be carried out for the benefit of mankind as a whole, irrespective of the geographical location of States, whether coastal or landlocked, and taking into particular consideration the interests and needs of developing States and of peoples who have not attained full independence or other self-governing status recognized by the United Nations in accordance with General Assembly resolution 1514 (XV) and other relevant General Assembly resolutions.
>
> 2. The Authority shall provide for the equitable sharing of financial and other economic benefits derived from activities in the Area through any appropriate mechanism, on a non-discriminatory basis, in accordance with article 160, paragraph 2 (f) (i).

5. Article 140 derives from the Declaration of Principles Governing the Seabed and the Ocean Floor, and the Subsoil Thereof, beyond the Limits of National Jurisdiction of 1970 (General Assembly resolution 2749 (XXV)). The two paragraphs in that article elaborate on the principle of the common heritage of mankind. Activities in the Area must be carried out for the benefit of mankind as a whole, and the International Seabed Authority is to provide for the equitable sharing of financial and other economic benefits derived from activities in the Area. Neither paragraph is self-executing, and the mechanisms for their implementation differ. The Convention provides little guidance on how article 140 may be implemented, leaving it to the Assembly to adopt rules, regulations and procedures, as explained below.

6. The reason for the cross-reference to article 160, paragraph 2 (f) (i), is to identify the organs of the Authority that are entrusted with functions in relation to the implementation of article 140. Article 160, paragraph 2 (f) (i), provides that the powers and functions of the Assembly include the consideration and approval, upon the recommendation of the Council, of the rules, regulations and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area and the payments and contributions made pursuant to article 82, taking into particular consideration the interests and needs of developing States and peoples that have not attained full independence or other self-governing status. If the Assembly does not approve the recommendations of the Council, it is to return them to the Council for reconsideration in the light of the views expressed by the Assembly. The 1994 Agreement also provides that decisions of the Assembly and the Council are to take into account recommendations of the Finance Committee on the issue of the rules, regulations and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area and the decisions to be made thereon (annex, sect. 9, para. 7 (f)). The present matter is therefore within the mandate of the Committee.

III. Previous work of the Authority and available literature related to the development of equitable sharing criteria

7. Work on the implementation of article 82 of the Convention has already begun, but the present report is the first step in describing the process towards the implementation of article 140.

8. The limited existing literature concerning the issues arising under article 140 includes a report of the Secretary-General of the United Nations on the possible methods and criteria for the sharing by the international community of proceeds and other benefits derived from the exploitation of the resources of the Area beyond the limits of national jurisdiction (A/AC.138/38 and A/AC.138/38/Corr.1). The report was issued in 1971 for the Committee on the Peaceful Uses of the Seabed and the Ocean Floor beyond the Limits of National Jurisdiction. It addressed the development of equitable sharing criteria and was aimed at providing the basis for a conceptual approach. It included the following list of non-financial benefits: expansion of world mineral resources, orderly development of resources, protection of the marine environment, enlarging the number of nationals with seabed technical competence, increasing the knowledge of the marine environment and seabed area, stability of raw material markets and preferential access to raw material for less developed countries. Financial benefits, on the other hand, were found to consist of the balance remaining after deduction of the expenditure from the revenues of the international machinery (personnel, supplies, training, research, etc.).

9. The report also contained a list of alternative criteria for the distribution of benefits, which were classified into two categories: direct distribution to Governments; and allocation to programmes of particular interest to developing countries. According to the report, before net proceeds reached a sufficiently large volume, direct distribution to all Governments might lead to a fragmentation of financial resources, which would result in benefits of modest significance to the receiving countries. During that initial period, there might be some advantages to concentrate available proceeds in programmes of high priority, such as the promotion of development in least developed countries (A/AC.138/38, para. 47).

10. The work of the Authority towards the implementation of article 82 of the Convention is more advanced. Since 2009, the Authority has convened a seminar and a workshop to explore important related legal and technical issues.[1] One of the issues addressed at those events was the development of equitable sharing criteria. The published outcomes of the events may assist the Finance Committee in considering the development of such criteria pursuant to article 140, given that articles 82 and 140 present some similarities (see below).

IV. Issues to be addressed for the development of equitable sharing criteria

11. The first issue to address is to gain a clear understanding of which financial benefits will be shared. Until the Authority gets sufficient funds from other sources (that is, from activities in the Area or from voluntary contributions) to meet its

[1] The Authority has published the outcomes of those events in three technical studies: *Issues Associated with the Implementation of Article 82 of the United Nations Convention on the Law of the Sea*, ISA Technical Study No. 4; *Non-Living Resources of the Continental Shelf beyond 200 Nautical Miles: Speculations on the Implementation of Article 82 of the United Nations Convention on the Law of the Sea*, ISA Technical Study: No. 5; and *Implementation of Article 82 of the United Nations Convention on the Law of the Sea*, ISA Technical Study No. 12.

administrative expenses, those expenses will continue to be met through the assessed contributions of the members of the Authority, in accordance with the Convention (arts. 171, para. (a), and 173) and the 1994 Agreement (annex, sect. 1, para. 14). Once funds are received from exploitation activities, the administrative expenses of the Authority will continue to be a first call upon the funds of the Authority, in compliance with article 173 of the Convention and regulation 5.7 of the Financial Regulations of the Authority. Article 173 and regulation 5.7 also provide that the funds that remain after payment of administrative expenses may, inter alia:

(a) Be shared in accordance with article 140 and 160, paragraph 2 (g), of the Convention;

(b) Be used to provide the Enterprise with funds in accordance with article 170, paragraph 4, of the Convention;

(c) Be set aside for the purposes of the economic assistance fund referred to in paragraph 1 (a) of section 7 of the annex to the Agreement.

12. Pursuant to paragraph 2 of article 173 of the Convention, the Authority may not use the assessed contributions for any of the purposes set out in paragraph 11 (a–c) above, even in the case of a surplus in the administrative budget.

13. A second core issue to address relates to the concept of equity. Article 140 provides that the benefits must be shared equitably, but does not define the term "equitable". Apart from part XI, the word "equitable" is used in several articles in the Convention, including in relation to the rights of landlocked and disadvantaged States to participate in the exploitation of the living resources of the exclusive economic zone of coastal States, in the composition of institutions established by the Convention and in maritime delimitations and, under article 82, in relation to criteria for the distribution of payments and contributions to States parties.

14. In compliance with paragraph 4 of article 82, payments and contributions are made through the Authority, which is required to distribute them to States parties to the Convention on the basis of equitable sharing criteria, taking into account the interests and needs of developing States, particularly the least developed and the landlocked among them. While articles 82 and 140 require the development of benefit-sharing criteria, there are differences in terms of the beneficiaries, the role of the Authority and the determination of the amount available for distribution. Under article 82, payments are distributed through the Authority (possibly subject to an administrative overhead charge), which has an instrumental role only, no amount may go to the economic assistance fund (see the 1994 Agreement, annex, sect. 7) and the beneficiaries are States parties to the Convention, taking into account the interests and needs of developing States, particularly the least developed and the landlocked among them. Equitable sharing criteria to be developed in relation to activities in the Area for the benefit of mankind, on the other hand, must be non-discriminatory[2] but must take into particular consideration the interests and needs of developing States and peoples that have not attained full independence or other self-governing status (art. 160 (2) (f) (i) of the Convention).[3] Interpreting how interests and needs will be

[2] Article 141 adds support to this principle by stipulating that the Area is open to use by all States without discrimination. In effect, equal access and the equitable sharing of benefits are two aspects of the same question. Furthermore, article 152 provides in clear terms that the Authority is to avoid discrimination in the exercise of its powers and functions. The granting of special consideration for developing States, including particular consideration for the landlocked and geographically disadvantaged among them, is permitted and is not considered discriminatory. The principle of non-discrimination also applies to the treatment of applicants and contractors.

[3] Article 140, paragraph 1, elaborates on the self-governing status by specifying that it is that recognized by the United Nations in accordance with General Assembly resolution 1514 (XV) and other relevant General Assembly resolutions.

taken into consideration is an issue. Furthermore, as a result of the differences in beneficiaries in articles 82 and 140, it is likely that consistent equitable sharing criteria will need to be developed, albeit with necessary variations or scales.

15. Given the particular consideration to be factored in the implementation, there may be a need to rank potential beneficiary States and peoples. In that regard, the question of whether the Authority will use existing indices maintained by international organizations, such as the United Nations Development Programme and the World Bank, or develop its own composite index with reference to the objects and purposes of article 140 remains to be addressed. The same issue also needs to be addressed to rank the beneficiaries under article 82 with reference to the objects and purposes of that article. Furthermore, given the difference in beneficiaries in articles 82 and 140 highlighted above, the indices may differ as well.

16. Last in this overview of issues to be addressed for the implementation of article 140 is the appropriate mechanism through which to distribute benefits. It is left to the discretion of the Authority to determine which mechanism or mechanisms will be appropriate for this purpose, bearing in mind that, as mentioned above, the establishment of a fund is an option.

V. Way forward and recommendations

17. In the light of the complexity and number of issues to be addressed for the development of equitable sharing criteria as broadly described in the previous section, a way forward may be to explore those issues in a more detailed study that would include suggested detailed criteria, in order to deepen the understanding of the issues at stake.

18. The Finance Committee is therefore invited:

(a) To take note of the present report;

(b) To request that the Secretary-General prepare a study with suggested sharing criteria for consideration at the twenty-fifth session of the Committee;

(c) To keep the present matter on its agenda for its session in 2019 and to make sufficient time available for discussion of the matter.

International Seabed Authority ISBA/24/FC/5

Finance Committee

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Agenda item 8

Status of the Endowment Fund for Marine Scientific Research in the Area and of the voluntary trust fund to support the participation of members of the Council of the International Seabed Authority from developing States in the meetings of the Council, and related matters

Report of the Secretary-General

I. Endowment Fund for Marine Scientific Research in the Area

1. Article 143, paragraph 2, of the United Nations Convention on the Law of the Sea provides that the International Seabed Authority shall promote and encourage the conduct of marine scientific research in the Area. Paragraph 3 of the same article provides that States Parties shall promote international cooperation in marine scientific research in the Area by, inter alia, ensuring that programmes are developed through the Authority or other international organizations as appropriate for the benefit of developing States and technologically less developed States.

2. In its resolution ISBA/12/A/11, the Assembly of the International Seabed Authority decided to create a special account, to be known as the Endowment Fund for Marine Scientific Research in the Area, with the purposes of promoting and encouraging the conduct of marine scientific research in the Area for the benefit of mankind as a whole, in particular by supporting the participation of qualified scientists and technical personnel from developing countries in marine scientific research programmes and by providing them with opportunities to participate in international technical and scientific cooperation, including through training, technical assistance and scientific cooperation programmes.

3. The initial capital of the Fund consisted of the balance remaining as at 18 August 2006 from the application fees paid by the registered pioneer investors, under resolution II of the Third United Nations Conference on the Law of the Sea, to the Preparatory Commission for the International Seabed Authority and for the International Tribunal for the Law of the Sea, pursuant to paragraph 7 (a) of resolution II, together with interest accrued thereon. The Assembly invited members

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of the Authority, other States, relevant international organizations, academic, scientific and technical institutions, philanthropic organizations and private persons to make contributions to the Fund. The Assembly also decided that only accumulated interest earned on the capital should be used to finance marine scientific research.

4. As at 9 May 2018, the capital of the Endowment Fund stood at $3,478,315. The most recent contributions during the financial period 2017–2018 were from the Institut français de recherche pour l'exploitation de la mer (Ifremer) ($5,000) and Mexico ($15,000). During the same period, financial assistance was provided to the Second Institute of Oceanography ($10,000), the Rhodes Academy of Oceans Law and Policy ($4,000) and Shanghai Jiao Tong University ($8,000). The status of the Endowment Fund as at 9 May 2018 is summarized in table 1.

Table 1
Status of the Endowment Fund for Marine Scientific Research in the Area as at 9 May 2018

(United States dollars)

Total capital	3 478 315
Accumulated interest income	619 179
Total income	**4 097 494**
Expenditure on marine scientific research activities	(550 076)
Total available funds (interest less expenditure)	**69 103**

II. Voluntary trust fund to support the participation of members of the Council of the International Seabed Authority from developing States in the meetings of the Council

5. At its twenty-third session in 2017, the Assembly decided to create a voluntary trust fund to support the participation of members of the Council of the International Seabed Authority from developing States in the meetings of the Council (ISBA/23/A/13).

6. As at 9 May 2018, the voluntary trust fund for the members of the Council received contributions from Global Sea Mineral Resources NV ($20,000), Nauru Ocean Resources Inc. ($20,000), Ocean Mineral Singapore Pte Ltd. ($20,000) and UK Seabed Resources Ltd. ($20,000). The status of the Fund as at 9 May 2018 is summarized in table 2.

Table 2
Status of the voluntary trust fund as at 9 May 2018

(United States dollars)

Total contributions	80 000
Support to delegates to the Council (as at March 2018)	7 473
Total available funds (contributions less expenditure)	**72 527**

7. From its creation on 18 August 2017, the voluntary trust fund for the members of the Council was administered in accordance with the provisional terms of reference promulgated in the form of a Secretary-General's bulletin (ISBA/ST/SGB/2017/9).

8. The Finance Committee is invited to consider and endorse the provisional terms of reference for the administration of the voluntary trust fund to support the participation of members of the Council of the International Seabed Authority from developing States in the meetings of the Council.

International Seabed Authority ISBA/24/FC/6

Finance Committee

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Twenty-fourth session
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Item 6 of the provisional agenda*
Status of implementation of the International Public Sector Accounting Standards

Status of implementation of the International Public Sector Accounting Standards by the International Seabed Authority

Report of the Secretary-General

I. Introduction

1. The present report has been prepared to inform the Finance Committee of the progress made by the International Seabed Authority towards the implementation of the International Public Sector Accounting Standards (IPSAS).

2. At its twentieth session, in 2014, the Assembly approved the adoption of IPSAS by the Authority (see ISBA/20/A/12), upon recommendation from the Finance Committee. In view of the Authority's participation in the United Nations common system, the implementation of IPSAS is expected to bring significant benefits in terms of the quality, comparability and credibility of financial reporting, as well as improved accountability, transparency and governance.

3. Progress made towards the implementation of IPSAS was reported to the Committee in 2015 (see ISBA/21/FC/9) and 2017 (see ISBA/23/FC/5).

4. The Authority applied the transitional exemptions permitted under IPSAS 33 — First-Time Adoption of Accrual Basis International Public Sector Accounting Standards, which allow for a three-year transitional period for the recognition of specified assets and liabilities. The IPSAS transitional financial statements of the Authority for the year ended 31 December 2016 were prepared in compliance with all applicable IPSAS standards, except for the three following areas:

(a) IPSAS 25 — Employee Benefits;

(b) IPSAS 30 — Financial Instrument: Disclosures;

(c) IPSAS 31 — Intangible Assets.

5. Those IPSAS standards were fully complied with in the Authority's financial statements for the year ended 31 December 2017.

* ISBA/24/FC/L.1.

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II. Progress made

6. Achieving full compliance with IPSAS for its financial statements for the year ended 31 December 2017 represents a major milestone for the Authority. The transitional areas have been complied with, specifically:

(a) For IPSAS 25, the Authority contracted a consulting firm (PricewaterhouseCoopers Belgium) to provide the actuarial valuation services for liabilities with respect to long-term employee benefits. The actuarial estimates from the consulting firm were subsequently recorded in the Authority's financial statements for the year ended 31 December 2017, the most significant item being the liabilities for the after-service health insurance, a post-employment benefit that provides coverage for the medical expenses of eligible former staff members and their dependants;

(b) For IPSAS 30, all the Authority's current financial arrangements including fixed-term deposits or cash and cash equivalents held in trust funds and other accounts entrusted to the Authority were disclosed in the notes to the financial statements for the year ended 31 December 2017;

(c) For IPSAS 31, the Authority set the criteria and thresholds for intangible assets and decided to report on a prospective basis, that is, all items qualified as intangible assets but acquired before 1 January 2017 were expensed.

7. In 2017, the Authority implemented the United Nations computer-based training courses on IPSAS. The majority of staff members, including all senior managers, have completed the course. This has helped to raise awareness of IPSAS and its impact on the Authority's daily transactions.

III. Tools required for a full implementation of the International Public Sector Accounting Standards

8. Even though the financial statements have been prepared in full compliance with IPSAS for the first time, the current accounting software (AccPac) lacks the capacity to fully facilitate the ongoing IPSAS financial management and reporting requirements, which poses challenges to the Finance Unit. The Authority will continue to explore the options of performing the necessary upgrades to the existing software or switching to another platform embedded in an enterprise resource planning system, to meet the IPSAS requirements. This task is expected to be completed during the biennium 2019–2020.

IV. Recommendation

9. The Finance Committee is invited to take note of the progress made by the Authority to produce IPSAS-compliant financial statements for the year ended 31 December 2017 and the plan for a full implementation of IPSAS over the biennium 2019–2020.

International Seabed Authority

ISBA/24/FC/7

Finance Committee

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Item 9 of the provisional agenda*
Status of the voluntary trust fund for the purpose of defraying the cost of participation of members of the Legal and Technical Commission from developing countries and members of the Finance Committee from developing countries in the meetings of the Commission and of the Committee, and related matters

Status of the voluntary trust fund for the purpose of defraying the cost of participation of members of the Legal and Technical Commission from developing countries and members of the Finance Committee from developing countries in the meetings of the Commission and of the Committee, and related matters

Report of the Secretary-General

1. In its decision ISBA/8/A/11, adopted at its eighth session, in 2002, the Assembly of the International Seabed Authority requested that the Secretary-General establish, as an interim measure, a voluntary trust fund for the purpose of defraying the cost of participation of members of the Legal and Technical Commission from developing countries and members of the Finance Committee from developing countries in the meetings of the Commission and of the Committee. The attendance of members at those meetings has played an important role in supporting decision-making and the proper administration of the Authority.

2. As at 9 May 2018, the cumulative total of contributions to the voluntary trust fund amounted to $700,570. In 2018, contributions were made by Argentina ($5,000) on 2 March, China ($20,000) on 17 April and the United Kingdom of Great Britain and Northern Ireland ($13,969) on 1 May. The total expenditure from the fund amounted to $895,228, while expenditure during the period from 1 January 2017 to 9 May 2018 came to $183,956, leaving an available balance of $12,357. The status of the voluntary trust fund as at 9 May 2018 is summarized in the table below.

* ISBA/24/FC/L.1.

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Status of the voluntary trust fund as at 9 May 2018

(United States dollars)

Contributions	700 570
Grants from the Pioneer Fund/Endowment Fund	195 000
Interest income	12 015
Total income	**907 585**
Expenditure for participants and authorized activities	894 610
Bank charges	618
Total expenditure	**895 228**
Total funds available	**12 357**

3. The table above clearly shows the critical state of the voluntary trust fund in 2017 and 2018.

4. At present, 14 members of the Legal and Technical Commission and 7 members of the Finance Committee are eligible for support from the voluntary trust fund. If all eligible members requested support, the total expenditure would amount to approximately $216,000 per annum. The average actual usage of the fund, based on one set of meetings held by the Finance Committee and two separate sets of meetings held by the Legal and Technical Commission per year, amounts to approximately $170,000 per annum.

5. During part I of the Council session, in March 2018, the Secretary-General drew the attention of all delegations to the situation of the fund. Two appeals for contributions to the fund were circulated by note verbale, on 21 March and 2 May 2018, respectively.

6. Pending any further contributions to the fund, and as an exceptional measure, the Secretary-General invites the Finance Committee to consider two possible solutions to ensure that the Fund is adequately endowed, in particular during the period 2019–2020, when the Authority will be developing the regulatory regime for the exploitation of mineral resources in the Area, and it will be important to ensure broad representation of the members of the Authority in its work.

7. The first option would be for the Finance Committee to authorize the Secretary-General to transfer up to $100,000 per year in 2019 and 2020 from the income generated by overhead charges paid by contractors. With 29 contracts for exploration, that income is estimated at $1,363,000 for 2018 and $1,363,000 for 2019, without taking into account the additional income that the proposed increase in overhead charges would generate. Transferring $100,000 (7.3 per cent) of that income would have a negligible impact on the income and expenditure of the Authority and would ensure the effective functioning of the Commission and the Committee during a critical period for the Authority.

8. An alternative proposal would be to authorize the Secretary-General, on an exceptional basis and as a temporary measure, to transfer up to $100,000 from the accumulated surplus funds of the Authority, comprising savings from previous budgets and miscellaneous or unplanned income. This measure could be reviewed again in 2019, without prejudice to any further decisions.

9. The Finance Committee is invited to make a recommendation to the Assembly, taking into consideration the critical state of the voluntary trust fund and the need to ensure full participation in the work of the Legal and Technical Commission and the Finance Committee.

International Seabed Authority ISBA/24/FC/8

Finance Committee

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Item 5 of the provisional agenda*
Review of costs of conference services and implementation of other cost-saving measures

Review of costs of conference services and implementation of other cost-saving measures

Report of the Secretary-General

I. Introduction

1. During the twenty-third session, the Finance Committee expressed its appreciation for the efforts being made to effect savings in the budget of the Authority and took note of the measures taken by the Secretary-General to constrain any further unexpected increases in the overall cost of conference services.

2. The Committee also requested the Secretary-General to continue those efforts to ensure cost reductions and to submit a report thereon in 2018, including on the status of conference costs. The present report responds to that request.

II. Costs of conference services

3. The table below shows the main cost components for conference services from 2014 to 2017. As described in ISBA/23/FC/8, significant savings were achieved in 2017 through various measures, including a reduction in the number of United Nations support staff from nine to two (estimated savings: $120,000), better coordination with the Jamaica Conference Centre (savings: $20,000), a reduction in documentation costs and the introduction of a paper-smart system (savings: $80,000). It is important, however, to distinguish between cost reductions and cost variations; for example, costs may be higher in a budget year or when there are several applications for approval of plans of work.

* ISBA/24/FC/L.1.

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Overview of conference service costs, 2014–2017

(United States dollars)

Designation	*2014*	*2015*	*2016*	*2017*
Miscellaneous conference services	236 803	124 466	115 908	108 458
Rentals	75 829	77 891	79 471	51 231
Meeting services (including interpretation)	856 482	1 109 191	1 045 364	718 644
Documentation	742 962	801 366	818 360	473 203
Total	**1 912 076**	**2 112 914**	**2 059 102**	**1 351 537**
Offset against application fees	687 993	224 959	593 202	31 204

4. In accordance with the decision of the Assembly, the secretariat installed remote interpretation facilities in 2018, and remote simultaneous interpretation services were provided during the meetings of the Legal and Technical Commission in March 2018. Initial feedback from the members of the Commission suggests a positive and encouraging overall experience. Remote services will also be deployed for the meetings of the Finance Committee and of the Legal and Technical Commission in July.

5. The use of remote simultaneous interpretation services has had a dual impact on the costs of conference services:

(a) The interpretation services provided by the company Interprefy are considerably less expensive than those provided by the United Nations;

(b) The Authority does not have to cover the costs of travel or the daily subsistence allowance for interpreters from Interprefy.

6. Using Interprefy will result in savings conservatively estimated at $180,000 for 2018, even though two more weeks of meetings are scheduled in the current session.

7. The secretariat has also implemented a different presentation of the budget for the costs of conference services. Those costs are now listed by type instead of by organ of the Authority. This will allow better monitoring of expenditure, better planning of conference service costs based on historical costs, and more transparency.

8. Overall, those cost-cutting measures will result in 20 per cent savings on conference services for the twenty-fourth session.

III. Other cost-saving measures

9. As approved in the budget for the financial period 2017–2018, the Authority replaced all fluorescent lighting with light-emitting diodes (LEDs) in January 2018, at a cost of $22,457.07. All electricity consumption for lighting during the first quarter of 2018 can be attributed to the new lighting system, and electricity costs for the first quarter of 2018 amounted to $4,342.67, down from $5,912.07 for the first quarter of 2017. This represents a reduction of $1,569.40 over three months, or approximately $6,000 per year, indicating that the investment will pay for itself in three years and eight months.

10. Another cost-cutting measure that the secretariat intends to explore is to change the way it purchases air tickets. There is no real competition among travel agents in Jamaica, and air tickets bought through those agents are often far more expensive than those purchased online or from vendors at a major hub. The secretariat plans to outsource the purchase of air tickets through the liaison office in New York, where

there is more competition and where tickets could be purchased from the travel agent used by the United Nations, if competitive, thereby allowing the Authority to benefit from special rates. This measure will be investigated during the remaining months of 2018.

International Seabed Authority ISBA/24/FC/9

Finance Committee

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Item 4 of the provisional agenda*

Implementation of the budget for the financial period 2017

Report of the Secretary-General

I. Introduction

1. The present report provides an overview of the budget performance for the period from January to December 2017. After taking into account adjustments to miscellaneous income relating to the processing of applications by contractors ($31,204), total expenditure during the period amounted to $7,598,363 against an approved budget provision of $8,722,600. This resulted in a headline underexpenditure of $1,124,237, or 12.9 per cent. This apparent underperformance against the budget is primarily attributable to changes to the budget format and accounting policies as a result of the implementation of International Public Sector Accounting Standards (IPSAS) and the fact that certain approved expenditure under programmes was advanced from funds available in 2016. These are explained further below, as well as information on administrative budget lines that showed significant variation (defined as differences between planned and actual expenditure larger than or equal to $20,000, or larger than or equal to 20 per cent of the planned amount).

II. Revised budget format

2. The budget report is presented in the format proposed to the Finance Committee in 2015 for the financial period 2017–2018 (see ISBA/21/FC/6). The same format was also used to report the budget execution for the first five months of 2017 during the twenty-third session. It will also be recalled that the Secretariat had introduced a more detailed report format on conference services costs, based on the type of expenditure rather than on the number of meetings of the organs of the Authority, and indicated that that format would be introduced in subsequent budget reports.

3. In its report in 2017 (ISBA/23/A/8-ISBA/23/C/10) the Finance Committee recalled that the budget format would be kept under review and would evolve in time and requested the Secretary-General to recommend possible further changes to the budget format in the following draft budget. Other changes to financial reporting were

* ISBA/24/FC/1.

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also introduced as a result of the implementation of IPSAS and reported separately to the Finance Committee.

4. The structure of the present document follows the new budget presentation format. Variances are reported by section, subsection and programme. For the programme budget, as there is a significant transfer of funds from the conference services subsection to programmes, as a result of savings made in conference services, comparisons are made between the actual and the initial individual values budgeted for 2017.

III. Budget review

Section 1: Administration and conference services

5. Total funds available in 2017 for section 1 were $7,884,400, representing 90.4 per cent of the available budget (meaning that less than 10 per cent of the budget was allocated to programmes). Further to efficiencies introduced in 2017, the Secretary-General authorized the transfer of $385,000 from conference services costs to selected programmes, reducing the budget available under section 1 to $7,499,400. Total expenditure against that reduced figure was $7,136,036, an underexpenditure of 4.6 per cent, after IPSAS-related adjustments.

6. Significant variances in expenditure resulted from the following:

(a) **Common staff costs**. There was an overexpenditure of 18.3 per cent as a result of the implementation in 2017 of the revised compensation package for staff in the Professional and higher categories, as approved by the Assembly in its decision ISBA/23/A/12. The implementation of the compensation package entailed a retroactive revision of personnel benefits for the previous two years. This was a one-time operation that was not initially planned and will not happen again;

(b) **Official travel**. There was an overexpenditure of 28.3 per cent, which can be attributed to increased activity and a budget estimate lower than the real travel needs of the secretariat, as well as stricter recording of travel against the correct budget line;

(c) **Communications**. There were savings of 25.6 per cent as a result of the implementation of a strict telephone policy and the use of better-performing equipment;

(d) **External printing**. This is a very small budget line and any decision to spend against it has a significant impact. Production of additional outreach materials resulted in overspending of $19,834;

(e) **Information technology**. Savings of 40 per cent were recorded as a result of changes to accounting policies, whereby the acquisition of assets is recorded under the item "acquisition of furniture and equipment". Expenditure recorded under this budget line therefore covers services only (Internet provider, hosting and outsourced maintenance of equipment);

(f) **Acquisition of furniture and equipment**. There was an underexpenditure of 62 per cent, as acquisitions were delayed to 2018, pending a comprehensive review of actual needs;

(g) **United Nations common system**. This budget line was overbudgeted. The 2017 budget provided for participation in various United Nations common services that were not utilized. Actual expenditure represents costs shared with the Department of Safety and Security ($37,400), participation in the International Civil Service Commission and related activities ($21,700), together with minor costs for common meetings in Kingston;

(h) **IPSAS**. No spending was recorded under this budget line, as the implementation of an enterprise resource planning system will not start until 2018.

7. As previously reported to the Finance Committee, significant savings were realized in conference services costs by reducing the number of United Nations support staff from nine to two (estimated savings of $120,000), better coordination with the Jamaica Conference Centre (savings of $20,000) and the drastic reduction in documentation costs with the introduction of PaperSmart (savings of $80,000).

Section 2: Programmes

8. The Finance Committee will recall that the programme budget was introduced for the first time in the 2017 budget. As there were no statistical data available on the costs of programmes, the secretariat used standard costs of workshops and travel for planning the budget for this section. However, only 9.6 per cent of the total budget was allocated to programmes ($838,000), providing little flexibility for transfers between budget lines.

9. Under programme 2.4 (Data management), provision for the design of the database in the amount of $345,000 and the acquisition of equipment in the amount of $150,000 was set aside from funds remaining available in 2016.

10. Significant overexpenditure appears in programme 2.6 (Outreach activities), primarily as a result of the Authority's participation in the 2017 United Nations Conference to Support the Implementation of Sustainable Development Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development (Ocean Conference), which was not budgeted, and the organization of an awareness-raising workshop in Kampala, in 2017.

11. As a result of the lessons learned during 2017, the programme budget for the financial period 2019–2020 is based on a more realistic balance of the administrative budget against the programme budget, as well as a more accurate estimated breakdown of expenditure among sub-items in the budget.

Annex

Budget performance report for the period from 1 January to 31 December 2017

United States dollars

Object of expenditure		*Approved for 2017*	*Transfers approved by the Secretary-General from sections to programmes*	*Budget after transfers*	*2017 expenditure (as at 31 December 2017)*	*Balance*	*Percentage of variation*
Section 1	**Administrative and conference services expenditure**						
Subsection 1	**Administrative expenditure of the Secretariat**	**5 919 400**	**0**	**5 919 400**	**5 877 124**	**42 276**	**0.7**
	Established posts	3 100 000		3 100 000	2 895 816	204 184	6.6
	General temporary assistance	15 500		15 500	33 726	-18 226	-117.6
	Overtime	35 000		35 000	31 966	3 034	8.7
	Consultants (non-programme)	10 300		10 300	0	10 300	100.0
	Common staff costs	1 505 000		1 505 000	1 779 689	-274 689	-18.3
	Training	31 500		31 500	13 848	17 652	56.0
	Official travel (non-programme)	91 200		91 200	117 020	-25 820	-28.3
	Communications	100 300		100 300	74 599	25 701	25.6
	Library books and supplies	68 000		68 000	59 102	8 898	13.1
	External printing (not programmes)	11 000		11 000	30 834	-19 834	-180.3
	Supplies and materials	40 100		40 100	55 665	-15 565	-38.8
	Official hospitality	11 500		11 500	14 392	-2 892	-25.1
	Information technology	98 000		98 000	58 757	39 243	40.0
	Acquisition of furniture and equipment	81 000		81 000	30 180	50 820	62.7
	Rental and maintenance of furniture and equipment	12 000		12 000	16 578	-4 578	-38.2
	United Nations common system	83 000		83 000	60 301	22 699	27.3
	Miscellaneous services	56 000		56 000	72 178	-16 178	-28.9
	Audit fees	20 000		20 000	16 000	4 000	20.0
	Buildings management	410 000		410 000	433 826	-23 826	-5.8
	Review of article 154 and related costs	80 000		80 000	82 645	-2 645	-3.3
	IPSAS	60 000		60 000	0	60 000	100.0
Subsection 2	**Cost of conference services**	**1 965 000**	**-385 000**	**1 580 000**	**1 258 912**	**321 088**	**16.3**
	Salaries of United Nations staff				8 907		
	Printing and supplies				289		
	Miscellaneous conference services costs				44 632		
	Travel of staff				277 291		
	Rental of conference centre				50 843		
	Temporary assistance (meetings)				50 186		

Object of expenditure		*Approved for 2017*	*Transfers approved by the Secretary-General from sections to programmes*	*Budget after transfers*	*2017 expenditure (as at 31 December 2017)*	*Balance*	*Percentage of variation*
	Rental of equipment				388		
	Local transportation				2 652		
	Meeting services				432 446		
	Documentation				380 578		
	Reception				10 700		
Total, section 1	**Administrative and conference services expenditure**	**7 884 400**	**-385 000**	**7 499 400**	**7 136 036**	**363 364**	**4.6**
Section 2	**Programme expenditure**						
Programme 2.1	**Development of the regulatory framework for activities in the Area**						
	Consultants	45 200		45 200	21 381	23 819	52.7
	External printing	0		0	0	0	
	Travel	45 600		45 600	72 029	-26 429	-58.0
	Workshops	0		0	0	0	
	Total, programme 2.1	**90 800**	**0**	**90 800**	**93 410**	**-2 610**	**-2.9**
Programme 2.2	**Protection of the marine environment**						
	Consultants	19 400		19 400	3 836	15 565	80.2
	External printing	600		600	0	600	100.0
	Travel	7 600		7 600	48 318	-40 718	-535.8
	Workshops	120 800	125 000	245 800	60 722	185 078	153.2
	Total, programme 2.2	**148 400**	**125 000**	**273 400**	**112 875**	**160 525**	**108.2**
Programme 2.3	**Management of contracts**						
	Consultants	0		0	0	0	
	External printing	0		0	0	0	
	Travel	15 200		15 200	12 165	3 035	20.0
	Workshops	2 900	30 000	32 900	2 118	30 782	1 061.4
	Total, programme 2.3	**18 100**	**30 000**	**48 100**	**14 284**	**33 816**	**186.8**
Programme 2.4	**Data management (resource and environment)**						
	Consultants	296 000		296 000	38 347	257 653	87.0
	External printing	9 600		9 600	0	9 600	100.0
	Travel	24 000		24 000	7 997	16 003	66.7
	Workshops	0		0	0	0	
	Information technology	206 900		206 900	113 222	93 678	45.3
	Central data repository	0		0	0	0	
	Maintenance and support	0		0	0	0	
	Total, programme 2.4	**536 500**	**0**	**536 500**	**159 566**	**376 934**	**70.3**

Object of expenditure		*Approved for 2017*	*Transfers approved by the Secretary-General from sections to programmes*	*Budget after transfers*	*2017 expenditure (as at 31 December 2017)*	*Balance*	*Percentage of variation*
Programme 2.5	**Promotion and encouragement of marine scientific research in the Area**						
	Consultants	9 700		9 700	0	9 700	100.0
	External printing	0		0	0	0	
	Travel	7 600		7 600	1 890	5 710	75.1
	Workshops	0	120 000	120 000	0	120 000	
	Total, programme 2.5	**17 300**	**120 000**	**137 300**	**1 890**	**135 410**	**782.7**
Programme 2.6	**Outreach activities**						
	Consultants	11 300		11 300	9 705	1 595	14.1
	External printing	600		600	0	600	100.0
	Travel	15 200		15 200	54 943	-39 743	-261.5
	Workshops	0	110 000	110 000	15 656	94 344	
	Total, programme 2.6	**27 100**	**110 000**	**137 100**	**80 303**	**56 797**	**209.6**
Total, section 2	**Programme expenditure**	**838 200**	**385 000**	**1 223 200**	**462 328**	**760 872**	**90.8**
Total, administrative, conference services and programme expenditure		**8 722 600**	**0**	**8 722 600**	**7 598 363**	**1 124 237**	**12.9**